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Dianne Wampler 12/20/2006 10:09:14 AM From DB/Inbox: Dianne Wampler

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Text:

C O N F I D E N T I A L ANKARA 06697

SIPDIS

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ACTION: ECON  
INFO: PA FCS POL DCM AMB RAO FAS MGT PMA CONS

DISSEMINATION: ECON /1  
CHARGE: PROG

APPROVED: ECON:TGOLDBERGER  
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RUCNIRA/IRAN COLLECTIVE  
RUEHIT/AMCONSUL ISTANBUL 1821

C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 006697

SIPDIS

E.O. 12958: DECL: 12/19/2016  
TAGS: [PINR](#) [ETTC](#) [ETRD](#) [EINV](#) [TU](#) [IR](#)  
SUBJECT: TURKISH COMPANIES AND SANCTIONS AGAINST IRAN  
(C-RE6-01152)

REF: A. STATE 192099

[1](#)B. ANKARA 6519

Classified By: Economic Counselor Thomas Goldberger for reasons 1.4(b) and (d).

This is a preliminary response to ref a.

[1](#)1. (C) Summary: Turkey has a lopsided trade relationship with Iran, with two-way trade consisting mostly of Turkish oil and gas imports. This situation leads Turkish officials to continue to push for more exports to Iran. Turkish Government officials show no signs of linking the issue of the Iranian nuclear program to their trade relationship with Iran, unless and until the UN imposes sanctions. With Security Council sanctions likely to be highly targeted, it is unlikely Turkish companies or the Turkish Government are devoting much thought to either discouraging trade or evading sanctions. End Summary.

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Turkey's Lopsided Economic Relations with Iran  
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[1](#)2. (SBU) Turkey's economic ties with Iran suffer from a major imbalance: out of the \$4.6 billion in total two-way trade in 2005, 79% represented Iranian exports to Turkey. 96% of the Iranian exports to Turkey consisted of energy (mostly natural gas). As a result of higher energy prices in 2006, the value of Iranian exports to Turkey soared in 2006: for the first ten months of 2006, total Iranian exports to Turkey jumped 73% from \$2.78 billion to \$4.80 billion.

13. (SBU) Turkish exports to Iran, by contrast, are highly diversified. Using 2005 data Turkey's principal categories of exports were: autos and spare parts (\$97 million), machinery (\$90 million), Tobacco products (\$56 million), steel (\$55 million), Minerals (\$51 million) and Electrical Machinery (\$48 million). Exports totaled \$899 million, merely 1.2% of total Turkish exports. Even among Turkey's Middle Eastern trading partners, Iran is not a major destination country, roughly equating to Turkey's exports to Saudi Arabia or Algeria or Ukraine.

14. (SBU) Nor does Turkey rank as a significant supplier to Iran when compared to Iran's other trading partners: Turkey accounts for only about 2% of Iran's imports, versus 13.8% for Germany, 8.3% for the UAE and China, 7% for Italy and 6.2% for France.

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Turks Press Iran to Buy More Turkish Goods  
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15. (C) Both Foreign Ministry and Foreign Trade Undersecretariat officials have expressed frustration with the imbalance. They tell us Prime Minister Erdogan and Foreign Trade Minister Kursad Tuzmen pressed the Iranians to buy more from Turkey during their December 2-3 trip to Tehran. The Iranians reportedly pointed to the large number (one million last year) of Iranian tourists who come to Turkey but took note of Turkish concerns. Turkish MFA officials said the Iranian Government, through the Government-controlled foundations (Bonyads) that control roughly 40% of the economy, could direct the companies they control to buy more from Turkey. The two sides are in the process of drafting a memorandum of understanding on bilateral trade which could be ready for signature as early as the week of December 18.

16. (C) Turkish officials do not view their desire to trade with Iran as contradictory to their support for international community efforts to induce Iran to bring its nuclear program into compliance with the IAEA or Turkish concerns about Iran developing nuclear weapons. Turks constantly refer to Iran as a neighbor with whom they have had mostly peaceful relations for four hundred years. Turkish officials are quick to say they will fully comply with any UN sanctions but in the same breath recount the economic hardship they suffered from broad-based sanctions against Iraq. Since the P5 plus 1 discussions do not seem likely to produce broad-based sanctions, Turks see no reason not to continue to develop economic relations with Iran. Given the Government's desire to increase trade, Turkish companies are unlikely to be devoting much thought to how to avoid sanctions.

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"Border Trade"  
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17. (C) Aside from Turkish corporates trading with Iran, Turkey allows duty-free "border trade" with Iran at three border crossings with Iran in far eastern Turkey. Turkish officials always cite the severe poverty and underdevelopment in this region and the lack of many alternative economic opportunities as a justification for allowing this trade. A Turkish MFA official put the volume of this trade at something on the order of \$25-30 million a year.

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Minor Turkish Business Activity in Iran  
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18. (C) Turkish officials confirm our sense that there is very little Turkish business activity or investment in Iran. Two of the highest-profile business deals -- cell phone company Turkcell's license to create a cell phone network and airport builder and operator TAV's contract to operate Imam Khomeini International airport were both cancelled. A TAV executive told us they were able to extract their equipment from Iran,

thereby avoiding a large loss when the contract was cancelled. He told us the Turkish Government has recently succeeded in securing Iranian agreement to provide \$5 million in compensation to TAV.

¶9. (C) According to a recent press report, the following Turkish companies have factories or other operations in Iran: Sabanci (tire cords), Ulker (chocolate and biscuits); Borusan (stainless steel and Caterpillar distributorship); Eksioglu (construction of a sports facility); Zorlu (textiles); Dampa (yarn); and Istanbul Group (ceramics). The article quotes Turkish-Iranian Business Council President Ali Osman Ulusoy as saying that 50 Turkish companies have invested some \$300 million in Iran, but Turkish Treasury data put total Turkish investment in Iran at only \$19 million. MFA officials, told us Turkish companies tend not to invest in Iran because of what happened to Turkcell and TAV.

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Financing  
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¶10. (C) As for financing, Turkish banks tell us they do not extend credit lines to Iran because of the country risk. Minister Tuzmen, on the other hand, announced on November 29 that Iran had agreed to deposit one billion Euros into a special account at Turkish Eximbank that will finance Turkish exports to Iran. Technical details have yet to be finalized.

Turkey also cooperates with Iran through the Economic Cooperation Organization (ECO), a regional body with ten -- mostly Central Asian -- members that has its secretariat in Tehran. ECO has long planned to open a trade and development bank that will be based in Istanbul, although Turkish Treasury officials told us the organization moves so slowly it will be years before the bank is up and running.

Visit Ankara's Classified Web Site at  
<http://www.state.sgov.gov/p/eur/ankara/>

WILSON